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A Policy Analysis

Bert Mason

Eric Gabler

Department of Agricultural Economics
Cornell University Agricultural Experiment Station
New York State College of Agriculture and Life Sciences
A Statutory College of the State University
Cornell University, Ithaca, New York 14853

PROPERTY TAX CIRCUIT-BREAKERS IN NEW YORK STATE:

A POLICY ANALYSIS[†]

by

Bert Mason[††] and Eric Gabler[‡]

Rapidly rising levels of property taxation and growing concerns about the burdens these taxes place on particular groups of taxpayers have led to widespread adoption of property tax relief programs for households. At present, all fifty states and the District of Columbia have some form of property tax relief program for the elderly, and many extend coverage to the non-elderly.[1/]

Although specific exemptions such as the homestead exemption are the most universal form of property tax relief, circuit-breakers are the most rapidly growing type of relief program. The first circuit-breaker program was initiated by Wisconsin in 1964. By mid-1978, thirty states and the District of Columbia had circuit-breaker laws.[2/] New York State adopted circuit-breaker legislation in March 1978. Property tax circuit-breakers

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†† Bert Mason is currently a senior economist at the Solar Energy Research Institute in Golden, Colorado. At the time this paper was written, he was an assistant professor in the Department of Agricultural Economics, Cornell University.

‡ Eric Gabler is a graduate research assistant in the Department of Agricultural Economics, Cornell University.

1/ Advisory Commission on Intergovernmental Relations, Property Tax Circuit-Breakers: Current Status and Policy Issues Washington, D.C.: February, 1975.

2/ John Shannon and Frank Tippett, "An Analysis of State Personal Income Tax and Property Tax Circuit-Breakers," unpublished paper presented at the 46th Annual Meeting of the National Association of Tax Administrators, Boston, June 1978, pp. 10-18. See Appendix A.

are tax relief programs designed to protect household income from "excessive" property tax burdens. Although design of specific circuit-breaker legislation varies among the states, circuit-breakers generally grant partial or complete relief from "excess" property taxes when they exceed a specific percentage of household income. Property tax relief is usually given as a cash refund, direct reduction of the property tax bill, or as a tax credit against state income taxes.

Proponents of circuit-breakers claim that they can rectify many of the purported ills of the real property tax, namely excess burden, regressivity, and interjurisdictional fiscal disparities. Opponents respond that circuit-breakers represent short-term relief rather than true reform and that benefits are distributed largely to individuals least in need of relief.

Regardless of one's perspective on the desirablility of circuit-breaker programs, it is clear that widespread momentum for adoption exists. It is also true that circuit-breakers offer a politically attractive response to demands to "do something about the property tax." In an atmosphere that creates strong desires among public officials to provide immediate and visible response, it is not surprising that adoption is rarely preceded by careful analysis of potential impacts and available alternatives.

The purposes of this paper are to provide a general background on circuit-breakers and discuss some important policy issues which face public officials considering property tax relief and reform, particularly in New York State. The intent is to catalyze discussion rather than pose definitive answers to the complex issues involved in property taxation.

Objectives and Design of Property Tax Circuit-Breakers

In the thirty-one states (including the District of Columbia) that have circuit-breakers, program design in terms of coverage and extent of relief varies widely.[3/] This variation makes it difficult to provide a concise and specific definition for circuit-breakers. Generally, all circuit-breaker programs seek to alleviate "excessive" property tax burdens by linking property tax liabilities for homeowners and/or renters to current annual household income.[4/] The usual justification for circuit-breakers is that they will alleviate purported regressivity of the property tax for low-income households and reduce interjurisdictional disparities in tax bases. Circuit-breakers are usually financed by state taxes, although a few states require local financing through direct reduction in property tax bills.

It should be noted that the term "circuit-breaker" is somewhat misleading. The Advisory Commission on Intergovernmental Relations (ACIR) poses an analogy between property tax and electrical circuit-breakers: "Property tax circuit-breakers are tax relief programs designed to protect family income from property tax 'overload' the same way that an electrical circuit-breaker protects the family from current overload."[5/] This analogy is not entirely accurate, since the property tax circuit-breaker does not completely shut down the "current," but instead allows a flow of property tax payments at some level legislated as acceptable. Moreover, any

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3/ This section relies heavily on the Advisory Commission on Intergovernmental Relations, op. cit.

4/ In 1974, Michigan extended circuit-breaker coverage to farms as well as owners of residential property.

5/ ACIR, ibid., p. 2.

reduction in property taxes via a circuit-breaker is shifted to some other revenue source in the tax system. The property tax circuit-breaker therefore operates more as "relay" than a "circuit-breaker," since it shifts tax liabilities to other taxpayers.

Circuit-breakers are quite flexible in application and can be designed to achieve a wide variety of legislative objectives. The impact that a particular circuit-breaker program will have on alleviating excess burden, regressivity, and revenue disparities among jurisdictions depends on specific design features of the program. Important considerations in designing a circuit-breaker include eligibility, income ceilings and extent of property tax relief. Alternative approaches to formula and program design are sketched in the following section.

Relief Formulae. There are basically two types of relief formulae used in calculating "excess" property tax burdens for circuit-breaker programs. These are labelled the threshold and sliding scale approaches by the Advisory Commission on Intergovernmental Relations.

The threshold approach uses a given percentage of income as the maximum acceptable amount of property tax a household may be expected to pay. In practice, this percentage, or threshold, varies directly with income. Low incomes may have, for example, a three percent threshold, while higher incomes may climb progressively to four, five, and six percent thresholds. Any amount exceeding the threshold is called excessive, and this amount is rebated either completely or in part to the taxpayer under the relief provisions of the circuit-breaker.

The sliding scale approach does not use a percentage of income criterion. Income classes are established, and for each income class a set percentage of property tax paid is rebated. For example, property taxes may be reduced by ten percent for families with less than $3,000 income. Under this approach, the percentage rebated declines as higher income classes are reached. Whether property tax liability is initially high or low in relation to household income is not a factor.

The differences between these two approaches, according to the ACIR are:

The threshold approach

> (a) rests solely upon the ability-to-pay concept, and can better target relief in accordance with this principle; (b) can make the residential property tax proportional below a given income level, or even progressive over a rather broad income range; (c) grants greater benefits, everything else equal, to residents of high spending jurisdictions; and (d) grants greater benefits, everything else equal, to occupants of high value homes vis-a-vis low value homes (thus, the threshold approach tends to encourage overconsumption of housing to a greater extent than the sliding-scale approach).

The sliding scale approach

> (a) maintains interjurisdictional tax differentials, consistent with the benefits-received principle of taxation (the notion that tax payments should be in proportion to benefits) where tax differentials reflect service differentials; (b) maintains tax differentials among occupants of homes having different values (thereby minimizing the circuit breaker's stimulus to housing consumption); (c) maintains tax differentials that arise from interjurisdictional tax base differentials (property-poor jurisdictions must levy higher tax rates than property-rich jurisdictions to provide the same level of service and the sliding-scale approach maintains these differentials to a greater extent than the threshold approach); and (d) assures that the taxpayer shares in tax increases so that his share of the cost of government service increases does not go to zero (built-in "co- insurance"), thereby preserving the taxpayer's incentive to weigh the benefits of proposed increases and to consider whether he wishes to support them.[6]

In evaluating these two approaches, ACIR concludes that the threshold approach is the more direct and cost-effective alternative for providing

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6/ *Ibid*, pp. 9-10.

relief for excess burden. ACIR maintains that the threshold approach is preferable to the sliding-scale because it reduces the impact of inter-jurisdictional tax base disparities.

Steven Gold, however, defends the sliding-scale formula on the basis that "the sliding-scale gives relatively more relief to households at each income level with lower property taxes; the threshold gives relatively more relief to households at each income level with higher property taxes."7/ Gold proposes that the sliding-scale allows for greater vertical equity by guaranteeing that higher income households will not receive benefits when lower income households do not and that the sliding- scale minimizes the tendency for households of greater wealth to receive greater benefits under circuit-breaker programs. Gold argues the sliding scale is preferable if property ownership is considered: 1) to reflect a family's preference for housing over other goods; 2) as a method of holding wealth; or 3) to reflect a desire in high-tax districts to have access to greater services that district might provide. If high property taxes are the result of a district's relatively poor property tax base, or the housing requirements of a large family, Gold suggests these equity problems are better addressed by intergovernmental fiscal transfers than by circuit-breaker relief.

The sliding-scale approach has the advantage of insuring taxpayer responsibility in voting for local spending, since qualified taxpayers must share a portion of any increase in property taxes. This "responsibility" factor can be built into threshold circuit-breakers by adding a "co-insurance restriction." Coinsurance means that less than 100 percent of

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7/ Steven Gold, "A Note on the Design of Property Tax Circuit-Breakers," National Tax Journal (December 1976), pp. 477-481.

property tax in excess of the threshold is refunded. Voter responsibility can therefore be maintained under either formula.

Coverage. Eligibility for benefits is decided in part by the income criterion for relief incorporated into the formula. Under the sliding-scale approach, eligibility and extent of relief are usually stratified by income class until a maximum income ceiling is reached, beyond which no benefits can be claimed. Although the threshold formula requires no income classes in theory, threshold percentages usually increase and rebate percentages usually decline as income rises. Further, most states legislate maximum income ceilings for eligibility.

In practice, states often limit coverage by criteria other than income and property tax payments. Age of the head of the household and occupancy status are often used in determining eligibility. ACIR defines three types of property tax circuit-breakers based on coverage. These are (1) "basic" circuit-breakers which cover only elderly homeowners, (2) "expanded" circuit-breakers which include elderly renters (based on a percentage of rent equivalent to property tax) along with elderly homeowners, and (3) "general" circuit-breakers which provide benefits to all overburdened households.[8/]

To the extent that elderly homeowners have a high ratio of real property holdings to income, it may be argued that limiting coverage to the elderly will insure that only those most in need of relief receive it. But when one considers income tax and property tax exemptions already granted the elderly and costs encounterd by young households (particularly in the form of dependents), this argument is less convincing. Bendick, in a study

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8/ ACIR, op. cit., p. 4.

of Wisconsin's expanded circuit-breaker program, found that the proportion of program benefits that go to the poor is lower for a program limited to elderly families than for a general circuit-breaker program. Relief is targeted more efficiently in a general program primarily because younger families of equal income to aged families are larger and therefore more likely to be poor.[9/]

With respect to occupancy status, the justification on equity grounds for including renters is dependent upon whether renters pay property taxes. There is a current debate among economists about who pays the property tax -- the owners of capital (landlords in this case) or renters.[10/] If the entire burden of property taxes is paid by owners of capital, then renters should be excluded. However, if renters pay property taxes in the form of higher rents, as is often believed in a rental market characterized by imperfect competition, then renters should also be covered. All but five states with property tax circuit-breakers include renters. It is usually assumed that 25 percent of the rent bill represents property taxes.

In choosing eligibility criteria, a trade-off between equity and cost must be made. Common sense dictates that, all else being equal, a program with broader coverage will be more expensive. Among the five states currently using general and broad-based circuit-breakers, greater expense is clearly evident on a per capita cost basis.

Precautionary Design Features. In designing circuit-breaker programs, it is often difficult to insure that benefits do not accrue to those not

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9/ Marc Bendick, Jr., "Designing Circuit-Breaker Property Relief," National Tax Journal, Vol. XXVII, No. 1 (March 1974).

10/ The debate about property tax shifting is covered in section 4.

actually in need of relief. A hypothetical case may serve as illustration. Few would argue that a wealthy family owning a high value home would merit relief under a property tax relief program. However, it is quite possible that property taxes on this large property holding, when compared to a manipulated "income," may exceed a given threshold and thus qualify the family for relief. If the circuit-breaker program uses taxable rather than unadjusted income from all sources, this family might qualify for a percentage rebate of property taxes.

Several methods exist for dealing with and preventing such practices.[11/] Perhaps the most important method is a comprehensive definition of income. Bendick's citation of the Wisconsin definition of income is illustrative of what might be considered.

> A recipient must have a husband-and-wife or single person "household income" of $7000 or less (household income includes Wisconsin-taxable income, plus net income earned outside the state, alimony and support payments, cash public assistance, gross pension income including social security, nontaxable income from federal government securities, and workmen's compensation and unemployment insurance. Unlike most tax programs, but like welfare programs, joint filing is mandatory).[12/]

Bendick suggests that further control should be made to:

1) Adjust the measurement of household income to take account of family size;

2) Include intrafamily transfers as part of household income of family members not sharing a homestead;

3) Pool incomes of all related individuals in a homestead as household income (in addition to income of husbands and wives);

11/ Some protection is basic to formula design. Adjustments in the threshold may include a variable threshold (higher for higher incomes), coinsurance restrictions, and income ceilings.

12/ Bendick, op. cit., p. 19.

4) Add imputed rent for non-family members sharing a household;

5) Add a net worth ceiling for eligibility.

Some families may have large asset holdings (stocks, bonds, investment property, etc.) but low current income. They may qualify for circuit-breaker relief even though they are "wealthy." Three circuit-breaker states, Maryland, New York, and Utah, currently use some form of wealth ceilings to eliminate asset-rich families from eligibility. While a wealth ceiling would prevent property-rich families or families with other large asset holdings from claiming relief, serious problems arise in estimating wealth. Furthermore, as pointed out by ACIR, a wealth ceiling should not be so low as to force people to give up their homes in order to qualify for relief.

Finally, all existing circuit-breaker programs include a ceiling on maximum benefits. These ceilings represent a tradeoff between the desire to provide relief where due and the desire to prevent windfall benefits, particularly to owners of high-value property. Ceilings also limit the cost--in terms of foregone revenues--to governments financing the circuit-breaker program.

Current Status of Circuit-Breaker Programs in the U.S.

Data in Table 1 give some idea of the combinations of coverage and relief formulae used by the thirty-one states (including the District of Columbia) with property tax circuit-breaker programs.[13] Information on costs and extent of benefits for these programs is presented as Appendix A.

As the data in Table 1 indicate, there is wide variation in designing circuit-breaker programs. This variation suggests the flexibility of the

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13/ Shannon and Tippett (June 1978) op. cit., pp. 11-18.

Table 1. Design of State Circuit-Breaker Property Tax Relief Programs, 1978*

	Coverage**			Relief formula			Precautionary measures	
	General	Expanded	Basic	Threshold	Sliding scale	Other	Income ceiling	Wealth ceiling
Arizona		x			x		x	
Arkansas			x	x			x	
California		x			x		x	
Colorado		x		x			x	
Connecticut		x		x			x	
D. C.	x+			x			x	
Hawaii	All renters					x	x	
Idaho			x			x	x	
Illinois		x		x			x	
Indiana		x			x		x	
Iowa		x			x		x	
Kansas		x		x			x	
Maine		x				x	x	
Maryland	All homeowners			x				x
Michigan	x			x				
Minnesota	x			x				
Missouri		x		x			x	
Nevada		x			x		x	
New Mexico		x		x			x	
New York	x+			x			x	x
North Dakota		x		x(renters)	x(homeowners)		x	
Ohio			x		x		x	
Oklahoma			x	x			x	
Oregon	x					x	x	
Pennsylvania		x			x		x	
Rhode Island		x		x			x	
South Dakota			x		x		x	
Utah		x					x	x
Vermont	x			x				
West Virginia		x		x			x	
Wisconsin	x			x			x	

* Compiled from ACIR data presented in Shannon and Tippett, (1978), op. cit., pp. 10-18.

** General programs cover elderly and non-elderly homeowners and renters, expanded programs provide relief for elderly homeowners and renters, and basic programs cover only elderly homeowners.

\+ Separate program for elderly and non-elderly taxpayers.

circuit-breaker concept in meeting diverse financial, social and political situations.

Most state programs are limited to elderly persons, with five programs limited to elderly homeowners only, and seventeen programs covering both renters and homeowners who are elderly. Seven states have circuit-breakers that cover homeowners and renters regardless of age, although New York and Washington, D.C. accomplish this via differential programs for the elderly and non-elderly. Hawaii and Maryland have programs that cover all renters and all homeowners, respectively. All but four states have maximum income ceilings, and three states have wealth ceilings. Eighteen states use threshold formulae of some type, ten states use sliding scale formulae, and four states use special formulae more closely related to the sliding-scale.[14/] Almost all of the circuit-breaker programs have been modified at least once since adoption.

In comparing costs and extent of benefits of these programs, it is clear that general coverage programs are more expensive than those which limit coverage to the elderly. Within the categories of elderly-only and general-coverage programs, it is difficult to generalize on patterns of costs and benefits. It does appear that limits on maximum credit and income ceilings generally constrain the effects of circuit-breakers substantially.

14/ This sums to 32 states (including Washington, D.C.) due to North Dakota's separate formulae for renters and homeowners.

Elementals of the New York Circuit-Breaker Law

In March 1978, the New York State Legislature adopted a circuit-breaker program (sections 7 and 12 of S.8819-A.11636) as amendments to the tax law. This program was an amalgamation and compromise among separate circuit-breaker proposals by the three leading gubernatorial candidates -- Governor Carey, Senator Anderson, and Assemblyman Duryea. It consists of both a real property tax circuit-breaker credit and a real property tax circuit-breaker deduction, which are mutually exclusive in application. Although the program is limited in terms of amount of relief granted, it covers both elderly (65 years and older) and non-elderly households. Elderly taxpayers can, however, qualify for substantially greater relief than non-elderly families.

Definitions. Under the New York circuit-breaker laws, a "household" is defined broadly to include the taxpayer and all who share the residence. Tenants not related to the taxpayer are excluded as household members. "Household gross income" is defined as adjusted gross income as reported for federal income tax purposes, plus excluded capital gains, earned income that is excludable for federal tax purposes, support money not included in adjusted gross income, nontaxable strike benefits, supplemental security income payments, exempt pensions and annuities (such as railroad retirement, social security and veterans' disability), unemployment insurance payments, interest from state and local bonds, workmen's compensation, and cash public assistance and relief. It does not include medical assistance for the needy or in-kind relief such as surplus foods. A "residence" under the circuit-breaker means a dwelling and no more than one acre of property.

Large landholdings, such as farms or estates, will not qualify for relief.[15/]

"Qualifying real property taxes" are all real property taxes exclusive of penalties and interest levied on the residence of a qualified taxpayer. They include any property taxes that would have been levied in the absence of other partial exemptions. This means that taxpayers with partial exemptions such as the veterans' and elderly exemptions can use exempt taxes in computing total real property taxes; circuit-breaker relief will supplement, rather than replace, benefits received from current partial exemptions.

Qualified renters, as well as homeowners, are eligible for circuit-breaker relief. Under the law, 25 percent of rent is considered as the real property tax equivalent. The amount of rent paid is reduced to reflect utilities, furnishing or board that might be included in the rental figure.

Real Property Tax Circuit-Breaker Credit. By the provisions of subsection (e) of §606 of the Tax Law, a tax credit is available to all qualified taxpayers for the tax years 1978, 1979, and 1980. Taxpayers qualifying for relief are elderly and non-elderly resident individuals who have occupied the same residence for at least six months and whose household gross incomes do not exceed $12,000. Taxpayers who would otherwise qualify are not eligible for circuit-breaker relief if the full value of the residence exceeds $65,000 or if the adjusted rent for the residence exceeds $300 per month. Relief is equal to 50 percent of property taxes

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15/ §305 of the Agriculture and Markets Law provides for the agricultural value assessment of farmland within agricultural districts.

exceeding a variable percentage of household income, thus making this a threshold-type circuit-breaker with a coinsurance requirement.

An important feature of the real property tax circuit-breaker credit is that it uses different relief schedules for elderly and non-elderly households. Reflecting the general preference given to the elderly under circuit-breaker provisions in other states, the relief provided to the elderly is substantially greater than to the non-elderly by way of lower income percentages and higher maximum benefit ceilings.

For the non-elderly, excess real property taxes qualifying for a tax credit are calculated as follows:

If household gross income for the taxable year is:	Excess real property taxes are the excess of real property tax equivalent or the excess of qualifying real property taxes over:
Not over $5,400	5% of household gross income
$5,401 - $7,200	6% of household gross income
$7,201 - $10,000	6% of household gross income
$10,001 - $12,000	7% of household gross income

The amount of credit granted is drastically reduced by provisions which limit maximum levels of reduction. The maximum credit cannot exceed $20 if household gross income is $5,400 or less, $15 if income is between $5,400 and $7,200, $12.50 if income is between $7,200 and $10,000, and $10 if income is more than $10,000 but does not exceed $12,000.

For the elderly (65 years and older), excess real property taxes qualifying for a tax credit are calculated as follows:[16/]

16/ This schedule (stated in section 7 of S.8819-A.11636) was initially set to become effective in the tax year beginning in 1980. However, the implementation date was advanced by S.9095-A.12108 to the taxable years 1978, 1979, and 1980.

If household gross income for the taxable year is:	Excess real property taxes are the excess of the real property tax equivalent or 50% of the excess of qualifying real property taxes over:
Not over $3,600	4% of household gross income
$3,601 - $5,400	5% of household gross income
$5,401 - $7,200	6% of household gross income
$7,201 - $12,000	7% of household gross income

The maximum circuit-breaker credit for elderly households is $200 if income does not exceed $7,200, $40 if income is between $7,200 and $10,000, and $15 if income is greater than $10,000 and does not exceed $12,000.

The following tables (Table 2 and 3) provide illustrations of the magnitude of property tax relief granted under the New York real property tax circuit-breaker credit for non-elderly and elderly households. It is clear from these examples that the elderly will receive substantially greater relief than non-elderly taxpayers. This is primarily the result of the relatively liberal maximum credit ceiling of $200 for the elderly, as contrasted to $20 for the non-elderly.

Real Property Tax Circuit-Breaker Deduction. As an alternative to the circuit-breaker credit, 1978 legislation allows a property tax circuit-breaker deduction for state resident individual income tax computation.[17/] Under this legislation, a qualified taxpayer can deduct a specified amount of property taxes from federal adjusted gross income (for state income tax purposes) for taxable years 1978, 1979, and 1980. Taxpayers qualifying for relief are non-elderly resident individuals whose household gross incomes exceed $5,400 but do not exceed $12,000 and who have occupied the same residence for at least six months. Relief is not available under the real

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17/ Tax Law §612, Subsection (m) as authorized under subsection (c), para. (18). This legislation may be changed from a modification to an adjustment status to facilitate its administration in conjunction with New York City tax.

Table 2. Non-Elderly Property Tax Circuit-Breaker Credit*

	Income	Property tax limit+	$400 (1)**	$400 (2)	$500 (1)	$500 (2)	$600 (1)	$600 (2)	$700 (1)	$700 (2)	$800 (1)	$800 (2)	$900 (1)	$900 (2)
			Property tax bill and credits											
5%	$ 900	$ 45	$177.50	$20	$227.50	$20	$277.50	$20	$327.50	$20	$377.50	$20	$427.50	$20
5%	1,800	90	155	20	205	20	255	20	305	20	355	20	405	20
5%	2,700	135	132.50	20	182.50	20	232.50	20	282.50	20	332.50	20	382.50	20
5%	3,600	180	110	20	160	20	210	20	260	20	310	20	360	20
5%	4,500	225	87.50	20	137.50	20	187.50	20	237.50	20	287.50	20	337.50	20
5%	5,400	270	65	20	115	20	165	20	215	20	265	20	315	20
6%	6,300	378	11	11	61	15	111	15	161	15	211	15	261	15
6%	7,200	432	0	0	34	15	84	15	134	15	184	15	234	15
6%	8,100	486	0	0	7	7	57	12.50	107	12.50	157	12.50	207	12.50
6%	9,000	540	0	0	0	0	30	12.50	80	12.50	130	12.50	180	12.50
6%	9,900	594	0	0	0	0	3	3	53	12.50	103	12.50	153	12.50
7%	10,800	756	0	0	0	0	0	0	0	0	22	10	72	10
7%	11,700	819	0	0	0	0	0	0	0	0	0	0	40.50	10

* Taxpayer eligible for credit only if full value of real property owned is no greater than $65,000 or adjusted rent does not exceed $300 per month.

\+ Property tax levies above this amount are considered to be "excessive."

** Column (1) indicates amount of circuit-breaker relief before applying maximum ceiling limit. Column (2) provides actual relief after the ceiling is applied.

Table 3. Elderly Property Tax Circuit-Breaker Credit*

	Income	Property tax limit+	$400 (1)**	$400 (2)	$500 (1)	$500 (2)	$600 (1)	$600 (2)	$700 (1)	$700 (2)	$800 (1)	$800 (2)	$900 (1)	$900 (2)
			Property tax bill and credits											
4%	$ 900	$ 36	$182	$182	$232	$200	$282	$200	$332	$200	$382	$200	$432	$200
4%	1,800	72	164	164	214	200	264	200	314	200	364	200	414	200
4%	2,700	108	146	146	196	196	246	200	296	200	346	200	396	200
4%	3,600	144	128	128	178	178	228	200	278	200	328	200	378	200
5%	4,500	225	87.50	87.50	137.50	137.50	187.50	187.50	237.50	200	287.50	200	337.50	200
5%	5,400	270	65	65	115	115	165	165	215	200	265	200	315	200
6%	6,300	378	11	11	61	61	111	111	161	161	211	200	261	200
6%	7,200	432	0	0	34	34	84	84	134	134	184	184	234	200
7%	8,100	567	0	0	0	0	16.50	16.50	66.50	40	116.50	40	166.50	40
7%	9,000	630	0	0	0	0	0	0	35	35	85	40	135	40
7%	9,900	693	0	0	0	0	0	0	3.50	3.50	53.50	40	103.50	40
7%	10,800	756	0	0	0	0	0	0	0	0	22	15	72	15
7%	11,700	819	0	0	0	0	0	0	0	0	0	0	40.50	15

* Eligible for credit if full value of real property owned does not exceed $65,000 or adjusted rent does not exceed $300 per month.

\+ Property tax levies above this amount are considered to be "excessive."

** Column (1) indicates amount of circuit-breaker relief <u>before</u> applying maximum ceiling limit. Column (2) provides actual relief after the ceiling is applied.

property tax circuit-breaker deduction to those filing for the real property tax circuit-breaker credit. As in the case of the tax credit, taxpayers who would otherwise qualify are not eligible for circuit-breaker relief if the full value of the residence exceeds $65,000 or if adjusted rent for the residence exceeds $300 per month.

Excess property taxes and the amount of deduction which can be claimed under the circuit-breaker deduction are determined as follows:

If household gross income for the taxable year is:	And the real property tax equivalent or qualifying real property taxes exceed:	Then the following deduction is allowed:
Over $5,400 but not over $7,200	6% of household gross income	$450
Over $7,200 but not over $10,000	6% of household gross income	$300
Over $10,000 but not over $12,000	7% of household gross income	$250

Table 4 provides an illustration of the amount of relief households of various income levels may expect to receive (assuming household gross income equals New York taxable income).

Table 4. Amount of Relief for Households of Various Income Levels After Deductions*

Income	Property tax threshold	Deduction allowed	State income tax before deduction	State income tax after deduction	Actual relief
$ 6,300	Over $378 or 6%	$450	$225	202.50	$22.50
7,200	Over $432 or 6%	450	272	247.50	24.50
8,100	Over $486 or 6%	300	326	308	18
9,000	Over $540 or 6%	300	380	362	18
9,900	Over $594 or 6%	300	443	422	21
10,800	Over $756 or 7%	250	506	488.50	17.50

* State individual income taxes owed are calculated from rates set under section 4 of the 1978 budget bill (S.8819-A.11636).

By comparing relief provided under the property tax credit (Table 2) and the property tax deduction (Table 4), it is apparent that greater benefits are afforded by non-elderly households by the deduction. In all cases, the benefits from the deduction for a qualified household exceed the ceiling benefits from the tax credit. However, actual relief available to the non-elderly under either the circuit-breaker credit or the circuit-breaker deduction is limited.

Summary. Adoption of circuit-breaker legislation indicates an interest in New York State to "do something" about the real property tax. It is also clear from the low benefit levels available to the non-elderly that legislators are hesitant to provide property tax relief that would place a large burden on the state individual income tax. Given the fiscal realities and uncertainties facing the State of New York, this limited response is not surprising. If the experiences of other circuit-breaker states suggest precedence, it is likely that coverage and extent of relief will be expanded in the future. History suggests that it is much more difficult to initiate reform or relief programs than it is to extend coverage under existing legislation. As will be suggested in the concluding section, careful consideration of alternatives and their impact should be given before the New York circuit-breaker program is substantially expanded.

Circuit-Breakers and the Property Tax: Some Policy Issues

According to public opinion polls, the property tax is considered the most onerous tax. In a June 1978 poll conducted by The New York Times and CBS News over the United States, the property tax was cited by 27 percent as the most "unfair," and the Federal income tax was identified similarly by 21 percent.[18/]

Shannon cites several unique characteristics of the property tax which lead to its unpopularity:[19/]

-- The property tax is considered to fall heavily on low-income households and often bears little relationship to household cash flow.

-- It is viewed as anti-housing; housing is a sacred right of the American dream.

-- Unlike income or sales taxes, property taxes impose a levy on unrealized capital gains.

-- The property tax is by far the most difficult to administer. Infrequent mass reappraisals result in pronounced taxpayer shocks.

-- The property tax is usually paid once a year, particularly for taxpayers who do not escrow their property taxes. This is a more painful and visible method of payment than the "pay as you go" income and sales taxes.

-- The property tax is often the whipping boy in pronouncements by

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18/ The New York Times, June 28, p. A16.

19/ John Shannon, "The Property Tax: Reform of Relief?" in Property Tax Reform, George E. Peterson (ed.), Washington, D.C.: The John C. Lincoln Institute and the Urban Institute, 1973.

political leaders and tax scholars. This adverse publicity has given the property tax a poor public image.

Despite its poor public image, the property tax has many virtues. Perhaps the most important is that the property tax is the major source of locally-raised revenue for local governments. Any move away from the property tax would likely result in a decrease in local fiscal autonomy. The property tax is also a relatively stable and predictable revenue source for local governments, an important characteristic in times of rapid fluctuations in economic conditions.

The inescapable element of fiscal realism is that the property tax is an important producer of revenues for local governments. In FY 1977, the real property tax generated approximately $8.5 billion for New York's local governments. During the same year, personal income taxes produced about $5 billion and sales and use taxes amounted to $4 billion for New York's state and local governments. It is therefore unlikely that a ready substitute for the property tax will be found. Prudent public policy would dictate that measures be adopted to reduce some of the most important deficiencies of the property tax.

The most pervasive and consistent criticism of the property tax is that it is accused of being regressive -- that it falls disproportionately on low-income households. This regressivity argument has been a major reason for advocating circuit-breaker programs. Although public and political opinion seems to hold this notion of regressivity almost unanimously, there is considerable debate -- both theoretical and empirical -- on this issue. The value of adopting circuit-breakers hinges crucially on this issue of regressivity.

Is the Property Tax Regressive? There are basically two views on the incidence of property taxes. The traditional view considers the property tax as a kind of excise tax which is borne by the users rather than owners of property. Under the traditional reasoning, the property tax is paid by renters through higher rents, homeowners through direct billing, and consumers through higher prices on commodities and services produced with taxes on residential property.

Estimates of property tax burdens by income class based on the traditional theory invariably conclude that the property tax is regressive.[20/] An example of such an exercise is presented in Table 5.

Table 5. Real Estate Taxes as a Percentage of Family Income for Elderly and Non-Elderly Single-Family Homeowners, 1970

Family Income	Real estate taxes as a percent of family income: Elderly (age 65 and over)	Non-elderly (under 65)
Less than $2,000	15.8	18.9
$2,000 - 2,999	9.5	10.1
$3,000 - 3,999	8.0	7.2
$4,000 - 4,999	7.3	5.5
$5,000 - 5,999	6.2	5.1
$6,000 - 6,999	5.8	4.3
$7,000 - 9,999	4.8	4.1
$10,000 - 14,999	3.9	3.7
$15,000 - 24,999	3.3	3.3
$25,000 or more	2.7	2.9
All incomes	8.1	4.1

Source: Advisory Commission on Intergovernmental Relations, Property Tax Circuit-Breakers: Current Status and Policy Issues, Washington, D.C., February 1975, p. 15.

20/ For examples of the traditional tax view, see Dick Netzer, Economics of the Property Tax, Washington, D.C.: The Brookings Institution, 1966 or Advisory Commission on Intergovernmental Relations, Financing Schools and Property Tax Relief -- A State Responsibility, Washington, D.C., January 1973.

Data in Table 5 indicate that, under the traditional assumptions of incidence, residential property tax payments are regressive in relation to current income. For families with less than $2,000 annual income, residential property taxes represent almost 19 percent of income. This percentage declines consistently as income rises; for families with incomes greater than $25,000, residential property taxes require less than 3 percent of income.

Proponents of circuit breakers cite several reasons for their belief that residential property taxes are regressive.[21/] First, low-income families spend a greater proportion of current family income on housing. A flat-rate tax on housing such as the property tax would therefore be regressive. Second, assessment variations may contribute to regressivity if high-value properties are under-assessed relative to low-cost housing. In a recent study of the City of Boston, Black attempted to account for the impact of widespread intrajurisdictional assessment bias in favor of high-valued properties.[22/] He found that assessment bias is significant and that the property tax, as administered in Boston, is regressive. Third, the property tax may be regressive among jurisdictions as well as among taxpayers. A low-income and low-wealth jurisdiction will have to levy higher rates of property taxation for similar levels of public services than will a higher-income jurisdiction with higher-valued residences. Fourth, an element of regressivity in practice comes from the Federal

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21/ Ibid.

22/ David E. Black, "Property Tax Incidence: The Excise-Tax Effect and Assessment Practices," National Tax Journal, Vol. XXX, No. 4 (December 1977).

personal income tax deductibility of property tax payments.[23/] Homeowners who can deduct are generally richer than renters who cannot. Lower-income homeowners are far more likely to use the standard deduction rather than itemizing and therefore are unable to take advantage of the property tax deduction. This tax deduction is also more important for higher-income groups, since the value of the deduction increases with the marginal income tax rate.

The second view on the incidence of property taxes -- the "revisionist" school -- challenges the basic assumptions on incidence which underpin the traditional approach. Revisionists argue that the property tax is a tax on capital and is borne by the owners, rather than users, of capital. Since ownership of capital is highly concentrated in high-income groups, the revisionist view claims that the property tax is progressive. Revisionists therefore see little rationale for granting relief to renters or owners, particularly in the form of circuit-breakers.

The theoretical basis for the revisionist view was provided by Mieszkowski, who employed a general equilibrium model to show that under certain conditions the average tax on all property will not produce an excise-tax effect on consumers but will be borne instead by all owners of capital through a decrease in the average rate of return on capital.[24/] In separate empirical studies, Henry Aaron,[25/] George Peterson,[26/] and Mason

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23/ Dick Netzer, "The Incidence of the Property Tax Revisited," National Tax Journal, Vol. XXXI, No. 4 (December 1976).

24/ Peter Mieszkowski, "The Property Tax: An Excise Tax or a Profits Tax?", Journal of Political Economy, April 1972.

25/ Henry J. Aaron, Who Pays the Property Tax? A New View, Washington, D.C.: The Brookings Institution, 1975.

26/ George Peterson, "The Regressivity of the Residential Property Tax," Urban Institute Working Paper 1207-10, November 1972.

Gaffney[27/] have found that residential property taxes are at worst "slightly regressive" and at best, "progressive."

A corollary to the revisionist theory of incidence is that property tax burdens should be measured against permanent or life-cycle income rather than current or annual income. The basic notion is that many of the poor in any one year are either those who are retired and previously had higher incomes or those who are young and expect to have higher income in the future. For both these groups, it is argued that housing consumption is based on life-cycle income -- that is, housing decisions are based in part on where one has been or where one is going, not just on where one is. Many argue that the property tax over a lifetime is much less regressive (perhaps even progressive) than current taxes related to current income. A large proportion of property tax relief such as circuit-breakers would therefore go to individuals who need it least -- those with large asset holdings. If the property tax is indeed progressive relative to permanent income, tax relief on the basis of current income may be undesirable. Gaffney takes this one step further by asserting that many taxpayers have low inocme but command considerable assets.[28/] In lower brackets of income, most income comes from labor; in higher brackets most comes from property and assets.

The counter argument to life-cycle analyses is that policymakers are, and should be, most concerned with current tax burdens relative to current income. Is the policymaker to tell younger families that the future will

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27/ Mason Gaffney, "The Property Tax is a Progressive Tax," Proceedings of the 64th Annual Conference on Taxation, National Tax Association, 1971.

28/ Mason Gaffney, "An Agenda for Strengthening the Property Tax," in Property Tax Reform, op. cit.

be better and elderly that had they been more frugal their taxes would be no problem? Moreover, proponents of circuit-breakers argue that the entire tax system in the United States is generally based on current income and there is little logic in singling out circuit-breakers as violating the doctrine of permanent income.

The issue of property tax regressivity is crucial in determining the desirability of adopting a circuit-breaker program. There is little concensus on the issue; the argument is fraught with conceptual and empirical difficulties. Despite this academic irresolution, policymakers appear to agree that the property tax is indeed regressive. The strength of this consensus is indicated by the fact that every state now has some form of property tax relief for elderly households. It would appear prudent for policymakers to examine the situation in their individual states carefully -- including the impact of present assessment practices -- before adopting circuit-breaker legislation. Such analysis would also be useful in designing a program that addresses the particular characteristics of a state's tax system.

Is the Property Tax a "Bad" Tax? An almost universal justification -- often an implicit one -- for circuit-breakers is a feeling that any decrease in reliance on the property tax is in the public interest. Much has been written on the purported evils of the property tax. A comprehensive analysis of the relative merits of the property tax is beyond the scope of this discussion. It is appropriate, however, to evaluate the property tax according to various public finance criteria and to discuss the potential circuit-breakers offer in addressing concerns about the property tax.

A concise and objective definition of "fairness" or "goodness" in taxation does not exist. From the individual perspective, the best tax is one that somebody else pays. It is hardly surprising to find differences of opinion about what constitutes a fair and good tax system; any discussion of what is wrong with the property tax and how it might be improved must recognize these different perspectives.

Equity. Probably the most important question about the property tax is if it is "equitable" or does it lead to everyone paying his or her "fair share." There are two principal approaches in defining an equitable tax base.[29] One is that taxes should be related to ability to pay. The other is that taxes should be related to the level of benefits received from public services. Neither approach is easy to apply, and both are difficult to define in a practical sense.

In earlier times, an individual's property ownership may have been a reasonable measure of ability to pay. It is now generally agreed that ownership of property is a poor measure of ability. This is primarily because the only property subject to taxation in most states (including New York) is real estate -- land and improvements. The property tax is not a general tax on wealth; it taxes only real property. Real estate is an important component of asset-holdings, but wealth is often held in other forms. The real property tax, as presently constituted, discriminates

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29/ A third concept of equity in taxation involves distribution of the tax burden after a tax base has been established. Horizontal equity--"equals treated equally"--requires that individuals in similar economic situations pay the same tax. For real property taxes, this would require that property owners holding real estate of similar value be treated equally. As the report of Governor Hugh L. Carey (cited in the final section of this paper) indicates, assessment practices in New York State have led to wide variation in assessment/market value ratios, both within and among different property classes. Assuming that full market value represents an equitable basis for assessment, the real property tax as administered in many New York assessing units does not appear to meet the criterion of horizontal equity.

against those who rely on real estate as opposed to other types of capital and assets. This concern may be particularly important for groups such as farmers who depend heavily on real estate investment to generate family income. It is also asserted that ownership of property is a poor measure of ability to pay when measured against current family income (from which property taxes must be paid).

For public services that are property-related and enhance the value of property (such as roads, sewerage and water facilities, fire protection, etc.), the property tax may be related closely to benefits available to property owners. Taxes paid on property may, however, bear little correspondence to consumption of many local public services. High-value or land-extensive properties may not benefit much from services. This is particularly true for services which principally benefit people, not property (schools, public assistance, etc.).

It is probably safe to conclude that the real property tax cannot be judged very highly by either criteria of equity -- ability to pay or benefits received. A circuit-breaker program is unlikely to improve significantly the relationship between property taxes and benefits received. If one accepts the notion that current annual family income is a reasonable measure of ability to pay, a circuit-breaker program could help tie property taxes more closely to ability to pay. Under current programs, this will be true only for low-income families, perhaps only the elderly. A potentially deleterious effect of circuit-breakers is that they may reduce tax liability for others who are property-rich but income-poor.

Neutrality. In a basically free-market economy, most people feel that a tax should not interfere with, or distort, private economic decisions. A tax is considered to be neutral if it does not lead to private resource misallocation and economic inefficiencies. An example of a neutral tax is a head or poll tax, which does not depend on the level of economic activity and therefore will not alter business or household behavior.[30/]

Property taxes may affect economic activity in several ways. In discussing the efficiency impacts of property taxes, it is necessary to distinguish between taxes on land and taxes on capital improvements. Since the supply of land is virtually fixed, a tax on land will have little effect on the supply of land. Landowners will bear the burden of a land tax, and their after-tax income will be reduced by the amount of the tax.

As Gaffney points out, there are two kinds of effects that a tax on land exerts.[31/] The first is the marginal effect. A land tax is borne by landowners, and will be capitalized into lower land prices. If land is being put to its most profitable use, a land tax will not affect decisions on how to use the land. A tax on land will not change the use of land, and therefore exerts no "marginal" effect on economic decision-making. The second effect of a land tax is on the landowner's wealth. A landowner must pay land taxes and after-tax income is reduced. If land is not being used in the most profitable manner, an increase in land taxes may provide incentive for more intensive land use. Increased land taxes make speculative holding of land more expensive.

Property taxes on capital improvements -- particularly buildings -- are not neutral. The supply of capital improvements, at least in the long

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30/ A head tax is a classic illustration of conflict between criteria for evaluating taxes. A head tax is efficient and neutral in terms of resource allocation, but is generally considered inequitable because it is highly regressive in incidence.

31/ Mason Gaffney, "An Agenda for Strengthening the Property Tax," in Property Tax Reform, op. cit.

run, is not fixed. An increase in taxes on capital improvements will lead to a decrease in after-tax income to owners. Investors can divert capital to other uses, which will eventually reduce the supply of capital improvements. Decisions between taxed and non-taxed (or lower-taxed) investments are affected on the margin. Since levels of property taxation vary among jurisdictions, property taxes may alter locational decisions of businesses and households.

It is often asserted that taxing buildings slows down renewal and replacement of obsolete buildings. Conversely, taxing land encourages an owner to improve the use of the land or sell. These differential economic effects on land and buildings have led many tax theorists to advocate shifting away from property taxes on buildings and towards land (site value) taxes. Nationwide, land is generally considered to be underassessed relative to buildings.[32/] Modern-day followers of the Georgist land tax concept -- such as Mason Gaffney, Lowell Harris and Dick Netzer -- argue that many of the negative economic effects of property taxes would be eliminated if the prevailing under-assessment of land were ended. They also take the argument one step further by advocating that the property tax should be shifted to a land tax.

Economic neutrality of the property tax -- or its non-neutrality -- is not likely to be affected significantly by tax relief provided by circuit-breakers. A minor salutary effect might be an income effect for property owners. Reduction in property tax liability might allow low-income homeowners to make improvements on their property that they otherwise might not have been able to afford. A circuit-breaker may also decrease the

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32/ Ibid.

disincentives for a property owner to invest in capital improvements, since the threat of increased property taxes would be decreased or eliminated. If policy objectives are to offset the investment disincentives of property taxes, a direct property tax abatement program that provides partial or complete exemption of new capital investment from increased property taxes would undoubtedly be more effective than a circuit-breaker approach. Many states, including New York, have adopted such a program, generally for commercial and industrial properties. A potential detrimental economic impact of a circuit-breaker is a reduction in the cost of holding land in a nonproductive fashion. This would be important for land-owning groups that have low incomes but may be wealthy in terms of assets, such as a retired family with low current income living in a high value home.

Circuit-Breakers: Reform or Relief? It is clear that the real property tax, as currently conceived and administered, is far from perfect. A basic issue should be faced by policymakers: do circuit-breakers represent true property tax reform, or are they merely another band-aid relief program for a politically vocal constituency?

Proponents of the circuit-breaker concept readily admit that it is a second-best alternative. A circuit-breaker does not address the fundamental problems of the property tax, such as distortion of land use, fiscal disparities among localities, and inconsistent administrative and assessment procedures. Circuit-breakers can provide relief for one of the most serious symptoms of the property tax -- excessive burden in relation to current income for particular groups of families and individuals. If one believes that the incidence of the property tax is indeed regressive, circuit-breakers can eliminate some of the more onerous aspects of tax inequity. The circuit-breaker is not wholesale tax reform; it addresses effects rather than causes. An important alternative to circuit-breakers which policymakers should consider is a major overhaul of the present system, most notably assessment improvement.

Who Pays? There are several potential impacts of circuit-breakers that should be scrutinized carefully. The property tax, and modifications such as the circuit-breaker, must be viewed in the context of the total tax system. As mentioned earlier, circuit-breakers do not reduce taxes; they merely redirect the burden to other taxpayers. In this sense, there is no "cost" to society of circuit-breakers. The "cost," in reality, is redistribution of the tax burden. Genuine tax relief requires tax reduction, which can be achieved only by reducing the overall level of government services or making the provision of the services more efficient.

Circuit-breakers shift tax liability among taxpayers and tax bases. Desirability of circuit-breakers should be judged, in part, on the direction and magnitude of the redistribution. Circuit-breakers can be designed to provide property tax relief by increasing the take from personal or business income taxes, sales taxes, or property taxpayers who do not qualify for circuit-breaker reductions. It is important to remember that there is no "perfect" tax -- all have limitations and weaknesses. Altering tax liability through property tax circuit-breakers may result in increased reliance on another tax that has even less desirable economic and equity impacts.

If circuit-breakers are financed by personal income taxes (as is done in most states, including New York), equity implications will depend largely on the design of the state's income tax structure. A relatively progressive state income structure will result in a potentially progressive transfer of tax burden for low-income property taxpayers to wealthier income-taxpayers. If the state income tax is regressive with respect to income, circuit-breaker relief funded through the personal income tax will be regressive. New York's personal income tax is one of the most progressive in the nation, although 1978 legislation will reduce this progressivity somewhat.

The personal income tax is often considered to be the most desirable tax available. In reality, the applause accorded the personal income tax is somewhat undeserved. Economists have long observed that exemptions, deductions, and special provisions have eroded the federal tax base and thus increased the rates needed for the income tax to raise a given amount of revenue.[33/] Since many states, including New York, base their personal income tax on the federal structure, the same erosion occurs at the state level. Capital gains and investment income provisions, homeowner preferences, tax-free municipal bonds, liberal depreciation and investment tax credits, and numerous other "loopholes" allow high-income and high-wealth individuals to reduce their effective tax rates substantially. Erosion of the income tax base means that the personal income tax is primarily a payroll tax that is borne largely by wage earners who cannot take advantage of special provisions accorded non-wage income. Payroll taxes for Old Age, Survivors, Disability and Health Insurance (OASDHI), which are regressive in relation to income, compound the fact that wage earners are highly taxed relative to individuals who derive their income from property and capital investments.

33/ John L. Palmer and Joseph J. Minerik, "Income Security Policy," in Setting National Budget Priorities: The Next Ten Years, Henry Owen and Charles L. Schultze (eds.), Washington, D.C.: The Brookings Institution, 1976.

Circuit-breaker property tax relief funded by personal income taxes will shift tax burdens from individuals who hold wealth in the form of real estate to income earners. From an equity viewpoint, this transfer of tax liability would be more desirable if reforms in personal income tax laws were effected. Broadening the income tax base by eliminating preferential treatment accorded non-wage income would allow circuit-breakers, when funded through increased income taxes, to be more equitable and progressive.

Some states, excluding New York, have funded their circuit-breaker programs by increasing sales taxes. Sales taxes are generally assumed to be shifted forward to consumers. Since low-income families tend to consume a high proportion of their income, low-income families usually pay a relatively high proportion of their income in sales taxes. Although exemption of food reduces sales tax regressivity, it is usually considered to be proportional or regressive in incidence. In this context, property tax relief can be considered sales tax aggravation. Funding circuit-breakers through increased sales tax does not appear to be a desirable alternative.

General vs. Specific Coverage. Another important equity consideration involves the scope of coverage for circuit-breaker eligibility. Twenty-four of the 31 states with circuit-breaker programs limit eligibility to elderly or disabled homeowners or renters. If the justification for circuit-breakers is to limit excess burden of property taxes, all low-income families should be eligible for relief. On the basis of equity, general rather than specific coverage is desirable. New York's circuit-breaker program covers both elderly and non-elderly but the extent of relief provided the latter group is limited.

Obviously, a general coverage circuit-breaker program will be more expensive than one that applies only to specific groups. This is an important trade-off between equity and cost that must be faced in designing property tax relief programs.

Reduce Exemptions? Perhaps the most desirable method of financing circuit-breakers is reduction or elimination of many of the exemptions currently offered property owners. In New York State, a wide variety of kinds of real estate held by various kinds of individuals and private organizations for various purposes are partially or entirely exempt from property taxation. For example, property of war veterans and certain near relatives is entitled to exemption of up to $5,000 of assessed value, if purchased with "eligible funds," pensions and other sources provided by the federal or New York governments, as defined in the Real Property Tax Law. Persons over 65 years of age with limited incomes may be eligible for partial tax exemption on their homes. Since some exemptions (such as the veteran's exemption) are based on fixed dollar amounts rather than percentage of value of the property (such as the elderly exemption), effective tax exemptions can often be substantial.

The basic problem of exemptions is that they are very crude and are not easily targeted to meet policy objectives. All veterans are not poor; neither are all senior citizens. Extent of application and effectiveness of exemptions vary widely among jurisdictions. Even though they are the result of State legislation and policies, most exemptions are financed by reduction in local tax revenues. Wholesale replacement of certain exemptions with circuit-breaker relief could be more equitable and efficient in achieving the goals of reducing excessive property tax burdens for low-income families and distributing the costs of State policies more evenly.

Indirect Effects. Circuit-breakers may exert several indirect or "second-order" effects. One that is sometimes cited by circuit-breaker opponents is that property tax relief funded by the state will further erode the tenuous link between revenue-raising responsibility and authority over resource allocation. The separation of decisions on how to raise tax money and how to spend it is said to be irresponsible and to encourage freer spending by the local government that receives the politically "cost-free" revenue. This charge stems from what might be called a "pain-pleasure" thesis of intergovernmental fiscal relations. The pleasure of spending public monies should be linked with the pain of raising the same revenues.

The separation of tax and expenditure sources will be a more important consideration if the circuit-breaker is general rather than specific in application. A specific circuit-breaker may, however, encourage citizens and their representatives in areas with high concentrations of eligible citizens (for example, a jurisdiction with a high proportion of senior citizens) to provide a higher level of public service than they would otherwise. Aaron suggests that circuit-breakers may well change attitudes of the aged toward school financing.[34/] As mentioned earlier, a sliding-scale circuit-breaker or coinsurance requirements tend to diminish this effect, since eligible taxpayers still share a portion of any increase in property taxes. It is also true that the New York circuit-breaker program

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34/ Henry Aaron, "What Do Circuit-Breaker Laws Accomplish?" in Peterson, op. cit.

is a post-property tax payment deduction on personal income tax liability. Local government officials will continue to face taxpayers when establishing tax rates, which may be of primary concern to local citizens (even if effective tax liability is reduced by the circuit-breaker).

If circuit-breakers apply generally to all low-income groups, increased demand for local services may present significant fiscal pressures on state governments. This would probably result in increased state surveillance and scrutiny of local fiscal affairs.

<u>Delay True Reform?</u> Perhaps the most consistent criticism of the property tax is that it places heavy burdens on low-income families. Circuit-breakers address this concern directly by linking annual income to tax payments. Circuit-breaker laws can alleviate regressivity of property taxes. If this is the primary and paramount defect of the property tax, circuit-breakers represent true tax reform.

Regressivity among individual taxpayers may, however, be only one aspect of the property tax that deserves scrutiny. Other problems with the property tax, such as land use distortion, interjurisdictional fiscal disparities, and poor assessment practices deserve careful consideration. If the property tax is viewed in the context of the overall tax system, circuit-breakers address only one of a myriad of needs for reform. Circuit-breakers, by eliminating the most visible defect, may make a bad system bearable and preclude major reforms that are required. Conversely, it can be argued that drastic changes are not feasible and incremental alteration in the proper direction are the best that can be achieved. Careful consideration of tax reform should not, however, be usurped by adoption of tax relief schemes such as the circuit-breaker.

Circuit-Breakers in the New York Setting

New York State's public sector faces many pressing financial issues. Per capita state and local taxes are among the highest in the nation. Economic stagnation has increased demands for public services without concomitant expansion of tax revenues. Extreme interlocal variations in financial abilities exist, particularly among school districts. Administration of the real property tax faces necessary and imminent overhaul to meet recent judicial rulings and notions of social equity.

A thorough discussion of the fiscal problems facing New York's state and local governments would stray from the central purpose of this paper. To place the discussion of circuit-breaker laws in proper perspective, it is necessary to outline the present financial environment of New York local governments, particularly with respect to property taxes.

Exemptions. Circuit-breakers can be viewed cynically as merely another property tax exemption. As mentioned previously, a wide variety of types of property held by various individuals and organizations for many purposes is currently eligible for partial or full exemption from property taxes. The question of exemptions in New York State has long been studied. In 1922 and 1927, the Special Joint Committee on Taxation and Retrenchment issued reports on real property tax exemptions. The Temporary State Commission on Revision of the Tax Laws recommended in 1935 that laws pertaining to real property tax exemptions be modified. Similar reports on exemptions were issued by the Constitutional Commission and Constitutional Convention staffs of 1938, 1959, and 1967. In 1969, the Joint Legislative Committee to Study and Investigate Real Property Tax Exemptions was established and presented its final report in 1970. The Temporary State Commission on State and Local Finances (the Feeney Commission) examined, among other matters, exemptions. Finally, the Temporary State Commission on the Real Property Tax was created in 1977 and was charged specifically with examining exemptions and many other aspects of the real property tax.

Despite these studies and public concerns, real property tax exemptions have steadily increased in both number and value. For the 1967 assessment rolls, approximately 30 percent of total valuation in New York State was exempt from real property taxes.[35/] Property held by federal, state and local governments, particularly cities, accounted for the bulk of these exempt properties. Privately-owned exempt properties were education, religious, hospital and medical facilities, veterans and aged, and housing and urban renewal projects.

As the number and coverage of exemptions increase, property taxes are shifted to taxpayers who do not qualify for exemptions. Although exemptions are often legislated by the State, most are financed by redistributing local tax burdens among residents. If exemptions are designed to implement statewide social policy, it would probably be preferable to finance such schemes through State revenues rather than local property taxes.

A major problem with current exemptions is the administrative burden that is placed on local assessors. For example, an application for veteran's exemption must be reviewed by the assessor to determine the existence of eligible funds, the source and preservation of such money, and the amount which may be applied as an exemption from assessed value. Any time spent processing and reviewing applications for partial exemptions

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35/ Temporary State Commission on State and Local Finances, The Real Property Tax (vol. 2), Albany: 1975, p. 88. Data cited are admittedly imprecise (see Commission Report, pp. 90-91), but they offer some general indication of the magnitude of exemptions.

distracts the assessor from performing his or her principal function -- to determine the value of property in the assessing jurisdiction. Exemptions for senior citizens pose particularly difficult administrative questions. Under current State law, elderly homeowners are eligible for a 50 percent reduction in the taxable assessed value of their property. Each municipal corporation (county, city, town, village and school district) within which the qualified owner resides has the option of granting the exemption. The individual municipalities also may establish their own income limitation within state-prescribed standards. Maximum permissable income is currently $7,200. It is possible for a property that is located in a village to have four different income limitations, or that property might be qualified for exemption in one or more, but perhaps not all municipal corporations. The responsibility for establishing and administering each exemption rests with the assessor. The New York State circuit-breaker is a supplement to current homeowner exemptions available to senior citizens, veterans, and others. This pyramiding will undoubtedly complicate administration.

Complete replacement of many current exemptions by a circuit-breaker has several merits. First, it would shift the financing of the tax relief from the local tax base to the State income tax. Distributing the burden of tax reduction across the State would reduce inequities among jurisdictions and would provide relief for owners of non-exempt properties in areas with high concentrations of exempt properties. Second, local administration can be minimized; the State income tax agency can compute and certify income, which is one of the most difficult requirements for assessors under the current exemption law. Third, a circuit-breaker can be designed to provide effective and specific relief for the target group. For example, current exemptions of 50 percent of assessed value for eligible elderly taxpayers may bear little relation to "excess burdens." The remaining 50 percent of tax liability may represent a significant hardship for some low-income families. For other homeowners, the 50 percent reduction in assessed value may provide excessive tax relief. Exemptions are a crude tool for implementing social policy. Circuit-breakers can be honed to insure that intended beneficiaries, and only the intended beneficiaries, obtain the desired relief.

Assessment Reform.[36/] The New York State Real Property Tax Law (Section 306) requires that property be assessed at its full value. A common concept of full value in court decisions is market value. In practice, no New York assessing jurisdiction assesses all properties precisely at full value. In very few does even the average level of assessment approximate the full value statutory standard.

The Governor's Advisory Panel of Consultants reported in 1976 on an analysis of a sample of residential properties drawn from the 1973 state equalization survey.[37/] The average ratio of assessment to sales was calculated, and then the average deviation of the assessment-to-sales ratio of each property from the sample average was determined (the coefficient of variation). In only 68 of 991 towns and cities in the state (excluding New York City) was the average deviation within 20 percent of the average assessment-sales ratio for that municipality. The average deviation was over 60 percent in 91 cities and towns. Said the panel, "[In] all but a

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36/ Portions of the discussion on assessment practices were taken from Bert Mason and Edward Lutz, Real Property Tax Assessments in New York: A Primer, New York State College of Agriculture and Life Sciences, Information Bulletin 130 (October 1977).

37/ Governor Hugh L. Carey, Educational Finance and the New York State Real Property Tax -- The Inescapable Relationship, May 1976, Education Study Unit, N.Y. State Division of the Budget, State Capitol, Albany, New York 12224, 32 pp.

handful of assessing units in New York State, assessments of residential property are scattered with appalling randomness over a wide range of deviation from the simple mean."38/ This comment was inspired not simply by the failure to assess residences at full value, but by the failure to assess with reasonable consistency at any ratio of full value.

In this situation of "appalling randomness" of assessment of individual properties, and declining equalization rates in a rising real estate market, the New York Court of Appeals, the highest state court, decided that the New York Real Property Tax Law requires assessment at full (market) value. On June 5, 1975, the court ordered that the Town of Islip in Suffolk County assess all real property within the Town at full value by December 31, 1976 (a deadline that was later delayed).39/ Although the Hellerstein decision was directed only to the Town of Islip, it binds the lower courts to uphold a similar challenge in any other assessing district. Many assessing jurisdictions across the State now face "Hellerstein-type" actions and many more court actions will undoubtedly be filed in the future.

These developments are stimulating widespread interest in bringing assessments to full value and maintaining them from year to year at that changing level. These are difficult goals not attained statewide over the nearly 200 years that the state law has required assessment at full value or its equivalent.

Full value assessment (or for that matter, consistent assessment at a percentage of full value) would cause a shift of taxes among individual

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38/ Governor Hugh L. Carey, op. cit., p. 7.

39/ Hellerstein v. Assessor of Town of Islip, 1975, 37 N.Y.2d 1, 371 N.Y.S.2d 388, 386 N.Y.S.2d 406, 352 N.E.2nd 593.

properties and among different classes of property. This is an inevitable outcome of equalizing assessments of properties having equal full or market value. The studies done for the governor's panel (cited above) by the State Board of Equalization and Assessment and the Education Unit of the State Division of the Budget indicate that the shifts in taxes within the residential property class from one property to another would total far more than the shift from other property classes to the residential category.[40/] Among classes, however, estimated statewide totals indicate a probable net tax shift to residential, vacant land, and farm property classes from the commercial, apartment, industrial, and utility classes. Reappraisal will shift the property tax in the direction of a land or site value tax, although tax levies on improvements will still be substantial. It is hazardous to generalize from these statewide totals to a specific local situation because there is so much variation among assessing units.

Once a number of revaluation programs have been completed in many assessing units, it will be possible to determine whether particular classes of taxpayers are unduly burdened. A major impact of full-value assessment will be a reduction in the value of many partial exemptions for many property owners. The benefits of veterans and other exemptions that are based on fixed dollar amounts will be reduced substantially in some jurisdictions, since assessments are currently based on partial rather than full value. If these groups are heavily impacted, some sort of relief -- perhaps in the form of strengthened circuit-breakers -- could be granted by the State Legislature.

40/ Governor Hugh L. Carey, *op. cit.*, p. 17.

Administration of the property tax in New York State is currently undergoing a major overhaul. More than 40 percent of the parcels outside of the New York City area have been revalued, or are in the process of being revalued, to meet the full-value standard. In this rapidly changing environment, it would seem prudent to be cautious in adopting large-scale relief programs such as the circuit-breaker. When major steps have been achieved in refining the administration of the property tax, careful consideration should be given to implementing programs, such as circuit-breakers, that relieve "excessive burden." Adoption of major relief programs before revaluation programs are widespread is probably premature.

Temporary State Commission on Real Property Tax. In response to recent court decisions and other developments relating to real property taxes, the 1977 Legislature created a temporary state commission on the real property tax. The commission's charge was to "make a comprehensive review of the administration and application of the real property tax and shall make such recommendations as it may find necessary to assure that the burden of taxation is equitably distributed while sound social, economic and governmental purposes are served." The commission was required to produce a report by December 31, 1978.[41/]

Among other tasks, the temporary commission was expected to review the desirability and feasibility of circuit-breaker programs, fractional assessments, and classified levies. The commission was also charged with examining the specific financial impacts of existing property tax exemptions and the effectiveness of these exemptions in promoting social policy.

41/ At the time of this paper was written the Commission had not produced a report.

Although it is easy to be cynical about temporary commissions and their likely impace on policy, the climate in the State appears favorable for meaningful change. Circuit-breaker legislation enacted in 1978 is limited in scope, coverage and cost. This program was enacted with apparently little consideration of basic issues and long-term consequences. Henry Aaron's observation of the rapid nationwide acceptance of the circuit-breaker concept is applicable to the New York experience: "Rarely has policy been so unequivocally supported by such dubious analysis." 42/

There is much agitation to do something about the property tax. The unholy fact is that the push to change the property tax has far outstripped analysts' ability to examine the effects of various "reforms." In the New York context, impatience for change should be tempered to allow careful and thorough analysis of the property tax as presently administered and the impact of full value assessment. The temporary commission on the real property tax provides an avenue for comprehensive review that can establish the background necessary to develop cogent tax policy. Expansion or modification of the present circuit-breaker program before the task of the temporary commission is accomplished and its findings and recommendations are carefully scrutinized would be premature.

Conclusion. The circuit-breaker concept is appealing on many grounds, not the least of which is its political attractions. Circuit-breakers are flexible enough to allow close matching between policy objectives and program implementation. They hold promise of alleviating what is often believed to be the most onerous aspect of property taxation -- undue burden in relation to current annual income.

42/ Henry Aaron, op. cit., p. 53.

Despite these advantages, it is difficult to be enthusiastic at this time about widespread application of circuit-breakers in New York State. Local government finance, particularly the property tax, is currently undergoing major and significant change. State legislation with respect to the property tax has been dominated by short-term response to immediate issues. The present circuit-breaker program falls into the category of "band-aid" legislation. Once the process of improving property tax administration has been accomplished and the basic problems of the property tax system are identified, the circuit-breaker can be viewed in its proper context. At that point, perhaps true reform rather than relief can be attained.

APPENDIX A - COSTS AND PARTICIPATION RATES OF STATE PROPERTY TAX CIRCUIT-BREAKER PROGRAMS: FISCAL YEARS 1974 AND 1977*

State	Total Cost of programs ($000)		Number of claimants		Average cost per claimant		Cost per capita	
	1974	1977	1974	1977	1974	1977	1974	1977
Arizona	N.A.	$ 7,762	N.A.	38,619	N.A.	$200.19	N.A.	$ 3.45
Arkansas	$ 166	676	2,798	8,916	$ 59.34	75.76	$ .08	0.36
California	61,000	85,000	302,000	440,000	201.98	193.18	2.96	2.74
Colorado	2,355	11,003	27,251	58,875	86.41	187.00	0.96	4.20
Connecticut	6,193	24,754	19,533	101,574	317.05	243.70	2.10	7.96
D. C.	N.A.	600	N.A.	6,000	N.A.	100.00	N.A.	0.87
Hawaii	-	4,200	-	N.A.	-	N.A.	-	4.65
Idaho	1,871	4,000	15,924	17,323	117.49	231.00	2.42	4.67
Illinois	21,950	100,000	144,647	405,000	151.74	250.00	1.95	8.85
Indiana	1,800	844	44,000	28,665	40.90	29.45	0.33	0.16
Iowa	2,540	9,600	37,000	83,800	68.64	114.56	1.26	3.34
Kansas	3,149	8,824	31,307	62,955	100.58	140.17	1.38	3.84
Maine	1,974	4,347	13,468	20,786	146.56	209.10	1.92	4.06
Maryland	-	20,808	-	83,863	-	248.12	-	5.03
Michigan	129,000	275,582	810,000	1,234,800	159.25	223.18	14.26	30.24
Minnesota	10,010	134,200	110,000	857,277	91.00	156.54	2.56	33.94
Missouri	4,709	7,008	58,031	56,260	81.14	124.57	0.98	1.46
Nevada	80	1,350	1,994	10,560	40.12	127.84	0.14	2.20
New Mexico	-	1,500	-	40,000	-	37.50	-	1.26
New York	-	N.A.	-	N.A.	-	N.A.	-	N.A.
North Dakota	35	1,198	5,052	9,969	70.00	120.20	0.55	1.86
Ohio	33,000	44,614	264,300	329,462	124.86	135.42	3.20	4.26
Oklahoma	N.A.	357	N.A.	4,159	N.A.	85.93	N.A.	0.13
Oregon	70,730	74,140	509,000	502,575	138.95	147.52	31.78	31.20
Pennsylvania	56,100	58,918	410,000	413,974	136.82	142.32	4.71	4.99
Rhode Island	-	12 1/	-	249	-	51.92	-	0.01
South Dakota	-	1,487	-	15,095	-	98.51	-	2.17
Utah	-	950	-	10,000	-	95.00	-	0.75
Vermont	4,731	7,670	16,400	36,516	288.47	210.05	10.19	16.08
West Virginia	166	18	8,529	1,265	19.46	13.94	0.09	0.01
Wisconsin	35,411	48,139	189,521	234,201	186.84	205.55	7.75	10.31
Total 2/	446,970	939,561	3,020,755	5,112,738	147.97	183.77	4.41	6.83
Percent increase		110.2		69.3		24.2		54.9

*For several states data are for other than year indicated, see Appendix B.

N.A. - Not available. New program for year indicated.

\- No circuit-breaker program in 1974.

1/ New program, data for period January 1 thru April 10.

2/ 21 states in 1974, 29 states plus D.C. in 1977.

Source: Shannon and Tippett, (1978), op. cit., p. 10.

Appendix B - KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, April 1978

State[1/]	Date of adoption and revisions	Description and number of beneficiaries	Income ceiling	Description of program	Form of relief
Arizona	1973 Revised: 1977	Homeowners and renters 65 and over	$3,750 single $5,500 married	Relief for single persons ranges from $225 for those earning less than $1,750 to $25 for those earning over $3,650 but less than $3,750. Relief for married persons ranges from $225 for those earning less than $2,500 to $25 for those earning over $5,350 but less than $5,500. Only taxes on first $2,000 of assessed value are considered (25 per cent of rent equals tax equivalent up to $225).	State income tax credit or rebate
Arkansas[2/] (1976)	1973 Revised: 1975	Homeowners 65 and over, widows 62 and over (8,916)	$8,000	Relief based on amount that property taxes exceed various percentages of household income, based on income size. Maximum relief ranges form $500 if income is $3,000 or less to $150 if income is between $7,000 and $8,000.	State income tax credit or rebate
California (1979 est.)	1967 Revised: 1971; 1973; 1977	Homeowners and renters 62 and over (Homeowners, 3,200; renters, 120,000)	$20,000 gross (homeowners $12,000 net) (renters $5,000 net)	Homeowner relief ranges from 96 percent of tax payment on first $8,500 of value if net household income is not over $3,000 to 4 percent of tax payment if net household income is $12,000. Renter relief is based on household income and a statutory property tax equivalent of $220. Relief ranges from 96 percent of the property tax equivalent if net household income is not over $1,400 to 4 percent of property tax equivalent if income is not over $5,000. (Additionally there is a state financed homestead exemption of $1,750 for all homeowners.)	State rebate
Colorado (1977)	1971 Revised: 1972; 1973; 1974; 1975; 1977	Homeowners and renter 65 and over or disabled (58,875)	$7,300 single $8,300 married	Relief cannot exceed $410 and is equal to $410 reduced by 10 percent of income over $3,300 for individuals and 10 percent of income over $4,300 for married couples (20 percent of rent equals tax equivalent).	State income tax credit or rebate

Appendix B - KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, April 1978

State	Date of adoption and revisions	Description and number of beneficiaries	Income ceiling	Description of program	Form of relief
Connecticut 3/ (1977)	1973 Revised: 1974	Homeowners and renters 65 and over (101,574)	$6,000	Taxes exceeding 5 percent of income. Maximum refund ranges up to $400 for incomes below $3,000 (20 percent of rent equals tax equivalent).	Reduction in tax bill
District of Columbia (1977)	1974 Revised: 1977	Non-elderly homeowners and renters (6,000)	$10,000	Relief takes the form of a variable credit ranging from 95 percent of tax in excess of 2 percent of income for incomes less than $3,000 to 80 percent of tax in excess of 4 percent of income for incomes between $7,000 and $10,000. Maximum credit, $400. (15 percent of rent equals tax equivalent.)	Income tax credit
		Elderly, blind or disabled homeowners and renters (12,632)	$20,000	Credit is based on amount of property tax paid in excess of various percentages of household income. Credit ranges from taxes paid in excess of 1 percent of household income if income is under $5,000 to taxes paid in excess of 2.5 percent of income for incomes between $15,000 and $20,000. Maximum credit is $750. (15 percent of rent equals tax equivalent.)	Income tax credit
Hawaii (1978 est.)	1977	All renters (N/A)	$20,000	Taxpayers with adjusted gross income under $20,000 who have paid more than $1,000 in rent qualify for a tax credit or refund of $20 per personal exemption. Taxpayers 65 and over may claim double tax credits.	
Idaho (1978 est.)	1974 Revised: 1976; 1978	Homeowners age 65 and over, widows, disabled veterans, blind, fatherless children under 18 (17,323)	$7,500	Relief ranges from lesser of $400 or actual taxes for those with incomes $3,000 or less to lesser of $75 or taxes for those with incomes between $7,001 and $7,500.	Reduction of tax bill

Appendix B - KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, April 1978

State	Date of adoption and revisions	Description and number of beneficiaries	Income ceiling	Description of program	Form of relief
Illinois (1979 est.)	1972 Revised: 1974; 1975; 1977	Homeowners and renters 65 and over or disabled (405,000)	$10,000	Relief based on amount by which property tax (or rent equivalent) exceeds 4 percent of household income. Relief limit is $650 less 5 percent of household income (30 percent of rent equals tax equivalent). An additional grant is provided regardless of the amount of property tax or rent payments. The additional grant is the greater of $50 or an amount computed by multiplying the claimant's household income by an applicable percentage. The percentages range from 1.0 percent for gross income of $7,000-$9,999 to 4 percent for gross income under $1,000.	State rebate
Indiana (1977)	1973	Homeowners and renters 65 and over or disabled (28,665)	$5,000	Relief ranges from 75 percent of property tax for incomes below $500 to 10 percent for incomes above $4,000. Relief limit is $500 (20 percent of rent equals tax equivalent [15 percent if furnished or utilities provided]).	Income tax credit or rebate
Iowa (1977)	1973 Revised: 1975	Homeowners and renters 65 and over (surviving spouse 55 or older) or totally disabled (83,800)	$9,000	Relief ranges from 100 percent of property tax for incomes below $1,000 to 25 percent for incomes not over $9,000. Property taxes are limited to $600 for calculating relief. Elderly property owners with less than $4000 Household income eligible for a minimum reimbursement of $125. (In addition, all homeowners receive a state financed homestead tax exemption of $4500. However, homestead assistance must be deducted from elderly audit program.) (25 percent of rent equals tax equivalent).	State rebate
Kansas (1977)	1970 Revised: 1972; 1973; 1975	Homeowners and renters 60 and over or disabled (62,955)	$8,150	Taxes in excess of various percentages of income, ranging form zero percent for incomes below $3,000 to 13 percent for incomes above $8,000. Property taxes are limited to $400 for calculating relief (12 percent of rent equals tax equivalent).	State rebate

Appendix B - KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, April 1978

State	Date of adoption and revisions	Description and number of beneficiaries	Income ceiling	Description of program	Form of relief
Maine (1977)	1971 Revised: 1973; 1974; 1977	Homeowners and renters 62 and over (disabled surviving spouse 55 and over) (20,786)	$5,000 single $6,000 married	Relief equal to amount of tax up to $400. (25 percent of rent equals tax equivalent.)	State rebate
Maryland4/ (1978)	1975 Revised: 1977	All homeowners (83,863)	None (net worth $200,000)	Relief, not to exceed $900, equals property tax exceeding sum of graduated schedule of percentages of income ranging from 1 1/2 percent of first $4,000 of household income to 9 percent of income over $16,000. This description applies to homeowners 60 and over or disabled. Homeowners under 60 compute benefits in same manner but receive only 1/2 the relief, to a maximum of $450.	Credit against property tax bill
Michigan5/ (1977)	1973 Revised: 1975	All homeowners and renters (1,234,800)	None	Credit equals 60 percent of property taxes in excess of 3.5 percent of income (100 percent of a lower percentage of income for elderly). Maximum relief is $1,200 (17 percent of rent equals tax equivalent).	State income tax credit or rebate
Minnesota (1977)	1967 Revised: 1973; 1975; 1976; 1977; 1978	All homeowners and renters (857,277)	None	Tax exceeding various percentages of income is remitted; percentages range from 0.5 percent of income below $3,000 (max. cdt. $475) to 4 percent of income $100,000 or more (max. cdt. $325). Additional refund is provided for non-senior homeowners equal to 35 percent of amount by which tax exceeds sum of preliminary refund and product of income times appropriate percentage. Total refund limited to $800. Additional refund for senior citizen homeowners and renters is equal to 50% of excess, to $800 maximum. Rent equivalent is 22%.6/	State rebate (optional income tax credit for elderly, disabled and renters)

Appendix B - KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, April 1978

State	Date of adoption and revisions	Description and number of beneficiaries	Income ceiling	Description of program	Form of relief
Missouri (1977)	1973 Revised: 1975; 1977	Homeowners and renters 65 and over (56,260)	$7,500	For incomes not over $2,400, the credit is equal to actual property tax or rent equivalent paid up to $500. For incomes between $2,400 and $7,500, tax exceeding various percentages of income is remitted. The percentages range from 1/8 percent accumlative per $200 of income for income between $6,200 and $7,500. Maximum relief, $500. (20 percent of rent equals tax equivalent.)	State income tax credit or rebate
Nevada (1977)	1973 Revised: 1975; 1977	Homeowners and renters 62 and over (10,560)	$11,000[7/]	Relief ranges from 90 percent of property tax for income of less than $1,999 to 10 percent for incomes between $10,000 and $11,000. Maximum relief is $300 (17 percent of rent equals tax equivalent).	State rebate
New Mexico (1978)	1977	Homeowners and renters 65 and over (40,000)	$16,000	The amount of credit allowed is based on a table provided indicating maximum property tax liabilities for various modified gross income classes. The credit ranges from all property taxes in excess of $40 for taxpayers with income of $1,000 or less, to property taxes in excess of $360 for taxpayers with income between $15,000 and $16,000. Credit limited to $250. (6 percent of gross rent equals tax equivalent.)	State income tax credit or rebate
New York	1978	All homeowners and renters (n/a)	$12,000	Relief is equal to 50% of the difference between real property tax and a certain percent of income. The percent of income ranges from 4% for taxpayers 65 and over with $3,600 or less, to 7% for taxpayers (all ages) with income over $10,000 but not over $12,000. The maximum credit ranges from $200 for taxpayers 65 and over with income of $7,200 or less, to $10 for taxpayers under 65 with income over $10,000 but not over $12,000. (25 percent of rent equals tax equivalent.)	State income tax credit or rebate

Appendix B - KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, April 1978

State	Date of adoption and revisions	Description and number of beneficiaries	Income ceiling	Description of program	Form of relief
North Dakota 8/ (1977)	1969 Revised: 1973; 1975; 1977	Homeowners age 65 and over or disabled (9,969)	$8,000	For persons with income under $3,500 the assessed value of the homestead is reduced 100 percent (maximum reduction, $4,000). For persons with income between $3,500 and $8,000 the reduction in assessed value varies. Relief ranges from an 80 percent reduction for incomes between $3,500 and $4,500 with a maximum reduction of $3,200 to a 20 percent reduction for incomes between $6,500 and $8,000 with a maximum reduction of $800. 9/	Reduction of tax bill
		Renters 65 and over or disabled (933)	$8,000	Property tax in excess of 4 percent of income is refunded. Maximum relief is $175. (20 percent of rent equals tax equivalent.) 9/	State rebate
Ohio (1977)	1971 Revised: 1972; 1973 1975	Homeowners age 65 and over or disabled (329,462)	$10,000	Benefits range from reduction of 70 percent or $5,000 assessed value (whichever is less) for incomes below $3,000 to 40 percent or $2,000 for incomes above $7,000.	Reduction of tax bill
Oklahoma (1977)	1974	Homeowners age 65 and over or disabled (4,159)	$6,000	Relief equal to property taxes due in excess of 1 percent of household income, not to exceed $200. [In addition, homeowners with household income of $4,000 or less receive a double homestead exemption ($2,000).]	Refundable income tax credit

Appendix B - KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, April 1978

State	Date of adoption and revisions	Description and number of beneficiaries	Income ceiling	Description of program	Form of relief
Oregon (1978)	1971 Revised: 1973; 1977	All homeowners and renters (502,575)	$15,999	Refund of all property taxes up to various maximums that depend on income. For homeowners, these maximums range from $655 if household income is under $500, to $115 if household income is $15,000 to $15,999; for renters, maximums range from $328 if household income is under $500, to $58 if household income is $15,000 to $15,999. (17 percent of rent equals tax equivalent.)10/	State rebate
Pennsylvania (1977)	1971 Revised: 1973	Homeowners and renters 65 and over or disabled; widows and widowers 50 and over (413,974)	$7,500	Relief ranges from 100 percent of tax for incomes less than $3,000 (maximum relief, $200) to 10 percent of tax for incomes greater than $7,000. (20 percent of rent equals tax equivalent.)	State rebate
Rhode Island (1978 1/1 - 4/10)	1977	Homeowners and renters 65 and over (249)	$5,000	The credit equals the amount by which property taxes paid exceed various percentages of household income. A table is provided based on income and household size. The credit ranges from taxes paid in excess of 3 percent of household income for taxpayers with income of $1,000 or less to taxes paid in excess of 7 percent of household income for two or more person households with income between $4,001 and $5,000. The maximum credit or rebate for 1977 is $55, thereafter, $150. (20 percent of rent equals tax equivalent.)	State income tax credit or rebate
South Dakota11/ (1977)	1976 Revised: 1978	Homeowners 65 and over or disabled (15,095)	$4,625 (single-member household) $7,375 (multiple-member household)	Refund is based on a percentage of real estate tax according to income. For single-member households, the percentage refunded ranges from 35% of tax if household income is less than $2,750 to 29% if income is between $4,501 and $4,625. For multi-member households, refunds range from 55% of tax if income is less than $5,500 to 25% if income is between $7,251 and $7,375.	State rebate

Appendix B - KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, April 1978

State	Date of adoption and revisions	Description and number of beneficiaries	Income ceiling	Description of program	Form of relief
Utah (1978)	1977	Homeowners and renters 65 and over (10,000)	$7,000 (homestead in excess of $80,000)	The rebate ranges from 95 percent of property taxes for incomes under $1,000 to 20 percent for incomes between $6,000 and $6,999. Maximum credit is $500. (10 percent of gross rent equals tax equivalent.) State rebate is not allowed if applicant applies for county indigent abatement.	State rebate
Vermont (1977)	1969 Revised: 1971; 1973	All homeowners and renters (36,516)	None	Refund of taxes exceeding variable percent of income ranging from 4 percent for incomes less than $4,000 to 6 percent for incomes over $16,000. Maximum relief is $500. (20 percent of rent equals tax equivalent.)	State rebate (or income tax credit for elderly)
West Virginia (1977)	1972	Homeowners and renters age 65 and over (1,265)	$5,000	Relief ranges from 30 percent to 75 percent of taxes exceeding a given percentage of income. These percents range from .5 percent to 4.5 percent. (12 percent of rent equals tax equivalent; not more than $125 considered for relief.)	State rebate
Wisconsin (1977)	1964 Revised: 1971; 1973; 1977	All homeowners and renters (234,201)	$9,300[12/]	If household income was more than $4,000, excess taxes are taxes above 15 percent of income exceeding $4,000. Tax credit equals 80 percent of excess taxes. If household income was $4,000 or less, credit equals 80% of total tax. In all cases aidable property taxes cannot exceed $800. (25 percent of rent equals tax equivalent.)	State income tax credit or rebate

Footnotes for Appendix B - Key Features of State Circuit-Breaker Property Tax Relief Programs, April 1978.

1/ The number of beneficiaries and cost data are for the fiscal years shown in parenthesis.

2/ Relief currently takes the form of cash refunds as those having an income tax liability fail to qualify for property tax rebate.

3/ Homeowners in Connecticut now have the option of circuit-breaker relief or a property tax freeze. Both programs reduce tax bill.

4/ The program was expanded by 1977 legislation to include all homeowners. The fiscal year 1979 cost has been estimated at approximately $60 million.

5/ In 1974 Michigan extended circuit-breaker coverage to farmers as well as owners of residential property. Farmers must agree to restrict land use to obtain relief, however.

6/ The maximum credits are increased by $200 for the elderly and disabled. All credits shall be reduced by any state paid homestead credits provided under Section 273.13(6) and (7). (Maximum credit $675 less the homestead credit).

7/ Claimants may not own Nevada realty, other than their own home, assessed at over 30,000.

8/ North Dakota has a separate program which lowers the assessed value of low-income elderly homeowners by as much as $3,000.

9/ In determining a person's income for eligibility, the amount of medical expenses incurred and not compensated for shall be deducted.

10/ Low-income senior citizens (age 58 and over with income under $5,000) are provided optional rental assistance.

11/ The number of beneficiaries, average benefits, and cost data are for property or sales tax refunds to the elderly or disabled. Age and income requirements are the same for both programs. Applicants can receive either a property or a sales tax refund. The Department of Revenue processes the claims for both programs and refunds whichever is to the applicants advantage. Separate data by program is not available.

12/ For purposes of calculating the credits, household income is reduced by $600 if the claimant, spouse or any dependent of the claimant is 65 years of age or older.

Source: Shannon and Tippett, (1978), op. cit., p. 10.

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